

**MINUTES  
REGULAR MEETING  
ARIZONA STATE RETIREMENT SYSTEM BOARD**

**Friday, July 15, 2005  
8:30 a.m., MST**

The Arizona State Retirement System (ASRS) Board met in the 10<sup>th</sup> Floor Board Room, 3300 N. Central Avenue, Phoenix, Arizona. Dr. Keith Meredith, Chair of the ASRS Board, called the meeting to order at 8:35 a.m., MST.

The meeting was teleconferenced to the ASRS office at 7660 E. Broadway, Tucson, Arizona 85710.

**1. Call to Order; Roll Call; Opening Remarks**

Present: Dr. Keith Meredith, Chair  
Mr. David Byers  
Mr. Jaime Gutierrez  
Mr. Chris Harris  
Ms. Anne Mariucci (via teleconference)  
Mr. Michael Townsend  
Mr. Lawrence Trachtenberg  
Mr. Steven Zeman

Absent: Mr. Karl Polen, Vice Chair

A quorum was present for the purpose of conducting business.

**2. Approval of the Consent Agenda**

**2E(ii) – Kristen Ellis** – Mr. David Ellis introduced himself and stated that he was speaking on behalf of his wife, Ms. Kristen Ellis, regarding her appeal. Mr. Ellis explained that he believed that there are certain monies that should be included in his wife's retirement that are not. Following discussion between the trustees, Mr. Tom McClory, Assistant Attorney General, Ms. Nancy Linssen, Assistant Director Financial Services, and Mr. Ellis, Dr. Meredith removed this item from the consent agenda for further discussion.

**Motion:** Mr. Michael Townsend moved to approve Refunds, Death Benefits and Retirements,

*And*

Approve the System Transfers,

*And*

Approve the minutes of the May 20, 2005 Regular Meeting of the ASRS Board,

*And*

Adopt the decision of the Administrative Law Judge of the Office of Administrative Hearings denying Ms. Judith S. Nowak's request for a retroactive retirement date.

Mr. Jaime Gutierrez seconded the motion.

By a vote of 7 in favor, 0 opposed, 1 abstention (Anne Mariucci), and 1 excused, the motion was approved.

There was continued discussion among the trustees and staff regarding Ms. Ellis' appeal.

**Motion:** Mr. Lawrence Trachtenberg moved to reject the appeal and adopt the decision of the Administrative Law Judge of the Office of Administrative Hearings regarding Kristin Ellis.

Mr. Steven Zeman seconded the motion.

By a vote of 5 in favor, 2 opposed (Jaime Gutierrez and Dave Byers), 1 abstention (Anne Mariucci), and 1 excused, the motion was approved.

Mr. Dave Byers stated that this was a difficult decision because it appears as though a mistake was made by the employer. Mr. McClory responded that there wasn't necessarily a mistake made. If the money wasn't due and payable until after Ms. Ellis' termination date then the money should not be included.

Mr. Gutierrez stated that he was troubled by this case and would like to know how many other retirees may be in similar situations. Dr. Meredith asked that a presentation be prepared for sometime in the future to give clarity to this situation.

### **3. Presentation, Discussion and Appropriate Action Regarding the ASRS International Equity Asset Class Structure and Selection of Associated Investment Managers**

Previous board action instructed ASRS Investment Management Staff to terminate Bank of Ireland Asset Management (BIAM) and Capital Guardian Trust Company (Capital) as ASRS International Equity managers, approve Barclays Global Investors (BGI) as an interim ASRS International Equity manager and transition approximately \$1.2 billion in assets from the BIAM and Capital portfolios to BGI's EAFE Equity Index fund, authorize IMD and RV Kuhns & Associates to review the ASRS International Equity asset class and recommend appropriate changes.

As a result, an International Equity Search Committee was formed to complete a comprehensive asset class review. The Committee consisted of two Investment Committee members, the CIO (Chair), Equity Portfolio Manager, Senior Portfolio Analyst, and RV Kuhns (advisory). The asset class review was divided into two parts: Part I, which analyzed the structure of ASRS

international equity exposure, and Part II, which focused on identifying managers whose capabilities are consistent with the desired international asset class structure. Based on these results, the Board recommends the following action:

**Motion:** Mr. Lawrence Trachtenberg moved that the Board approve to:

- Establish a dedicated International Equity Small Cap mandate with an asset allocation target of 10% of the total ASRS International Equity Asset Class.
- Modify ASRS International Equity Asset Benchmarks from MSCI EAFE Index to MSCI ACWI Ex-US Index for Large Cap International Equity Managers and MSCI EAFE Small Cap Index for Small Cap International Equity Managers.
- Adopt Style-biased International Equity Mandates, i.e., core, value and growth.
- Hire and fund Active International Large Cap Core/Growth Managers: MFS (approx. \$500 million) and Hansberger Global Investors (approx. \$400 million).
- Retain Brandes Investment Partners as ASRS Active International Large Cap Value Manager.
- Hire and fund Active International Small Cap Managers: AXA Rosenberg (approx. \$231 million) and DFA (approx. \$116 million)
- Terminate the Bank of New York (BNY) International Equity ADR portfolio.
- Migrate assets from BGI EAFE Index fund (passive) to BGI ACWI Ex-US Alpha Tilts fund (enhanced passive).
- Adopt new ASRS asset class passive targets/ranges: U.S. Large Cap Equity (65% +/- 10%), International Equity (10% +/-5%) and U.S. Fixed Income (75% +/-20%).

Mr. Steve Zeman seconded the motion.

By a vote of 8 in favor, 0 abstentions, and 1 excused, the motion was approved.

#### **4. Presentation, Discussion and Appropriate Action Regarding Presentation of GFOA Award**

Mr. Michael Townsend, Chair, Operations Committee, presented the Government Finance Officers Association's (GFOA) Certificate of Achievement for Excellence in Financial Reporting to Nancy Linssen, Assistant Director, Financial Services, and Leslie De'Reche, Comptroller, for the June 30, 2004 Comprehensive Annual Financial Report (CAFR). This is the sixteenth year that the ASRS has received this prestigious award which is a Certificate of Achievement presented to those government units whose annual financial reports are judged to adhere to program standards. The GFOA award represents the highest award in government financial reporting.

## **5. Presentation, Discussion and Appropriate Action Regarding the Arizona Legislative Process**

Ms. Denisse Gee, ASRS Government Relations Officer, presented a review of the Arizona Legislative Process. Ms. Gee explained the steps in which a Bill is made into a Law:

- Opening a Bill Folder
- Introduction
- Subject Committees
- Crossover
- Final Read
- Governor's Desk
- Enacted into Law

Ms. Gee also explained that certain bills, if enacted into laws, may have a positive or negative impact on the ASRS therefore it is quite important to stay aware of pending and current legislation and to educate legislators accordingly.

## **6. Presentation, Discussion and Appropriate Action Regarding the Arizona Rules Process**

Ms. Nancy Johnson, ASRS Rules Coordinator, presented a review of the laws applicable to and the processes associated with Board adoption of Administrative Rules. Ms. Johnson explained that the authority for rulemaking comes from the Administrative Procedure Act, Title 41, Chapter 6 (§ 41-1001 through § 41-1057). There are four types of rulemaking: Regular Rulemaking, Emergency Rulemaking, Summary Rulemaking, and Exempt Rulemaking. Regular Rulemaking is the form used most frequently by the ASRS. Ms. Johnson presented the process the ASRS must go through when making a rule.

- File Notice of Rulemaking Docket Opening (A.R.S. § 41-1021)
- Any time within a year of the filing of Notice of Rulemaking Docket Opening External Affairs Committee recommends approval Notice of Proposed Rulemaking
- Board approves Notice of Proposed Rulemaking
- File Notice of Proposed Rulemaking (A.R.S. § 41-1022)
- Notice of Proposed Rulemaking published by the Secretary of State
- After at least 30 days after publication, Oral Proceedings/Close of Record (A.R.S. § 41-1023)
- There may be more than one oral proceeding
- EA Committee recommends approval of Final Rulemaking
- Board approves Final Rulemaking
- File notice of Final Rulemaking with Governor's Regulatory Review Council (GRRC); placed on GRRC agenda 1½ to 2 ½ months out (A.R.S. § 10-1052)
- Approved at GRRC meeting and filed with the Secretary of State
- Becomes effective 60 days after being filed with the Secretary of State unless otherwise approved for earlier or later effective date (A.R.S. § 41-1032)

Ms. Johnson explained that it generally takes a minimum of a full year for this procedure to take place.

## **7. Director's Report**

Mr. Paul Matson welcomed Jothi Beljan, new Assistant Attorney General, and congratulated Pat Klein, new Assistant Director of External Affairs. Mr. Matson also stated that he would like to point out that the findings of the Internal Auditors show compliance was being met for various periods with near 100% accuracy in the areas of Service Purchase Cost Invoices, refunds processed, internal investment validation, and issues regarding investments.

#### **8. Possible Presentation and Discussion Regarding Board Committee Updates**

Mr. Jaime Gutierrez, Chair, External Affairs Committee, reported that there was no June meeting of the External Affairs Committee but anticipates being very busy over the next several months due to the upcoming legislative session.

Mr. Lawrence Trachtenberg, Chair, Investment Committee, reported that the Committee will be meeting August 2, 2005, and will be setting up a passive read portfolio.

Mr. Michael Townsend, Chair, Operations Committee, reported that the Committee will be meeting next week and one of the major items of discussion will be the IT Plan Review.

#### **9. Board Requests for Agenda Items**

Mr. Dave Byers requested that the appeals process be discussed at the next Operations Committee Meeting to see if there are any adjustments that can be made to improve the process. Dr. Meredith agreed that the process should be discussed since it was approximately a year ago that the process went into effect.

#### **10. Call to the Public**

No members of the public requested to speak.

#### **11. The next ASRS Board meeting is scheduled for Friday, August 19, 2005 at 8:30 a.m., at 3300 N. Central Avenue, 10th Floor Board room, Phoenix, Arizona.**

#### **12. Adjournment of the ASRS Board**

Dr. Meredith adjourned the July 15, 2005 Board meeting at 10:37 a.m.

ARIZONA STATE RETIREMENT SYSTEM

---

Anne Schrode, Secretary

Date

---

Paul Matson, Director

Date